

STATEMENT OF
THE HONORABLE NORMAN Y. MINETA
SECRETARY OF TRANSPORTATION

BEFORE THE
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
UNITED STATES SENATE

JULY 5, 2005

Mr. Chairman, thank you for inviting me to this hearing. It is a pleasure to join you here in Alaska. Administrator Blakey, Regional Administrator Poe and I all appreciate this opportunity to discuss with you important issues related to aviation in Alaska. The U.S. Department of Transportation is well aware of the absolutely critical role that aviation plays in the lives of all Alaskans. In addition to its important place in Alaskan society, aviation faces unique conditions here that set it apart from the rest of the United States in many respects. So we are here today to address a number of the aviation issues that matter most to your constituents. In that regard, Administrator Blakey will testify about the significant work of the Federal Aviation Administration (FAA) in promoting and enhancing safety. But first, I will speak about the aviation programs within my own office that have a direct, daily impact on aviation and air service in the State of Alaska.

As an initial matter, the Office of International Aviation has worked for many years to liberalize air service markets throughout the world – and we have had considerable success. Liberalized markets allow for expanded flows of goods and people that benefit our economy and those of our partners. Recently, we have signed Open Skies agreements with India and Indonesia and

obtained much greater access to China. Our liberalization efforts provide the foundation for the kind of growth in cargo services that have benefited Ted Stevens International Airport, which is a natural transfer hub for routes between the lower 48 states, the booming Asian economies, and Europe.

In connection with the Department's actions generally to open opportunities for air cargo activities, in 2004, new federal legislation was passed that substantially augments the liberal air cargo transfer rights that existed at Alaskan airports prior to this legislation due to the Department's earlier actions. As a result of this legislation, foreign carriers may now transfer and carry international origin or destination cargo between Alaska and other points in the United States that was previously prohibited by federal law

As a result of the above actions by the Department and the Congress, as well as the infrastructure improvements made by the airports, the level of air cargo activity at Anchorage has increased substantially in recent years. The number of air cargo landings has increased from less than 14,000 in 1988 to more than 42,000 in 2004, a more than three-fold increase. As these numbers show, when carriers are given liberal opportunities to serve an airport and the airport takes steps to make its facilities attractive, this can lead to substantial increases in the level of operations at that airport. We will continue to work actively to open international air service markets to the benefit of businesses, communities and consumers in Alaska and everyone else in the United States.

As you know, with respect to programs and activities that are focused within the state, the Department administers the Essential Air Service (EAS) program and sets air transportation rates for Intra-Alaska Bypass Mail. With regard to both of these responsibilities, I can assure you that the Department is committed to ensuring that air service in Alaska is frequent, safe, and affordable, for passengers and freight shippers, as well as for the Postal Service.

It is clear that air service in Alaska, as well as the rest of the country, has changed dramatically over time. In the days before airline deregulation, there was a sign outside a Wien Air Alaska station advising prospective passengers that if they did not arrive within one hour of the scheduled flight, Wien would bump the passenger in favor of delivering an extra 200 pounds of mail or freight from its backlog. The competitive pressure of deregulation was designed to help address such issues of poor service for passengers, freight, and mail.

In administering the EAS program, the Department ensures that communities receive a safety-net level of service when they are too small or too remote to receive market-driven service. Likewise, with the Department setting mail rates in Alaska, the Department ensures that carriers are fairly compensated for transporting the mail, and also that mail, freight, and passenger service work in tandem like the “separate legs of a stool.”

The critical importance of mail and air service to Alaska’s regional hubs and villages will continue for the foreseeable future. The Department seeks to ensure that there is an integrated transportation system that can provide benefit to all. This challenge -- and Mr. Chairman, I do

not use the word “challenge” lightly -- requires that the federal government wisely manage programs affecting intra-Alaska service.

Essential Air Service Program (EAS)

The Department has administered the EAS program since deregulation of the airlines in 1978. The laws governing EAS have not changed significantly since its inception more than 25 years ago notwithstanding the dramatic changes that have taken place in the airline industry. Under that program, the Department provides a safety-net level of air service to the smallest and most isolated communities. Given that air service is typically the only access to Alaskan villages, the Department has regarded EAS to these communities as a very high priority.

Although we take our fiscal responsibilities quite seriously, the Department has not administered the EAS program in a way as to merely minimize our expenditures. We give great weight to the needs and opinions of the affected communities, as mandated by Congress in section 41733(c)(1)(d) of the statute.. For example, we have just this year increased air service to Akutan from the prior subsidized level, because we recognized that with the growth in that market, traffic could not be reasonably accommodated with the previous, lower level of scheduled service. Likewise, we selected Alaska Airlines to provide subsidized service at Adak, notwithstanding that there was another proposal for a million dollars less per year in subsidy, because we recognized the extreme isolation of Adak, and the need for jet aircraft to fly the 1,200 miles to Anchorage.

However, the story is different in the lower 48 states, and I would like your support in working with the Congress in making some much-needed structural changes to the program. While many communities in the lower 48 are indeed isolated, many others are not. Many communities are within 40-50 miles of an airport with plenty of jet service but, because it might be categorized as a small hub, those communities are entitled to subsidized air service. And that can be the case even though many, if not most, air travelers in the community drive to the nearby airport because they prefer its broader array of prices and services.

Under current law, a community's eligibility for inclusion in the EAS program has been based only on whether it was listed on a carrier's certificate on the date the program was enacted-- October 24, 1978. Once subsidized service was established, there was little incentive for active community involvement to help ensure that the service being subsidized would ultimately be successful. I can tell you anecdotally that many EAS communities in the lower 48 do not even display their subsidized EAS flights on their homepages, but do show the availability of air service, especially low-fare service, at nearby hubs. As a result, EAS-subsidized flights are frequently not well patronized and our funds are not being used as efficiently or effectively as possible.

As you know, in 2003 the Administration began proposing significant reforms for the EAS program. Under the Administration's proposal, communities are asked to become partners in the financing of their air services. In exchange, they are given a much bigger role in determining the nature of that service. As a result, currently eligible communities would remain eligible, but would have an array of new transportation options available to them for access to the national air

transportation system. In addition to the traditional EAS of two or three round trips a day to a hub, the communities would have the alternatives of charter flights, air taxi service, or ground transportation links. Regionalized air service might also be possible, where several communities could be served through one airport, but with larger aircraft or more frequent flights.

Under the Department's proposal, community participation would be determined by the degree of its isolation from the national transportation system. The most remote communities (those greater than 210 highway miles from the nearest large or medium hub airport) would be required to provide only 10 percent of the total EAS subsidy costs. Communities that are within a close drive of major airports would not qualify for subsidized air service, but would receive subsidies constituting 50 percent of the total costs for providing surface transportation links to a nearby airport with better service. Specifically, communities within: (a) 100 driving miles of a large or medium hub airport, (b) 75 miles of a small hub, or (c) 50 miles of a non-hub with jet service would not qualify for subsidized air service. All other EAS communities would have to cover 25 percent of the subsidy costs attributable to the provision of air service.

The proposed small-hub and non-hub criteria are important. Under current law, communities located within 70 miles of a large or medium hub are not eligible for subsidized air service, on the principle that passengers find driving to such nearby service too attractive an alternative for the subsidized service to compete against. Our proposal extends that same principle in a measured way to small hubs and non-hubs offering jet service, applying tighter proximity standards in line with the smaller size of the alternate service.

We believe that this approach would allow the Department to provide the most isolated communities with air service that is tailored to their individual needs. Importantly, it provides communities in the program greater participation, control, and flexibility over how to meet their air service needs, and a far greater incentive to promote the success of those services. In this time of fiscal constraint, Congress would be recognizing the need to responsibly trim the costs of the program, while simultaneously protecting the needs of those communities most deserving of support.

I am well aware that the proposed requirement of a local contribution has not been well received by many. But this is one of the few federal programs that does not have any local contribution. In the Department's Small Community Air Service Development Program, we have found that many communities are willing and able to make contributions to improve their local air services. As with that program, the local contributions in the reformed EAS program would not have to be made by local governments – for example, local businesses or the state government could provide the needed financial support. Nonetheless, I understand the concerns you have expressed about this in the past. In that respect, I stand willing to work with you and the Committee on ways we can all make the EAS program better, because it currently is not structured in a way that makes sense for the current state of air transportation in this country.

Rural Service Improvement Act of 2002 (RSIA)

Due to your efforts, Mr. Chairman, Congress passed the Rural Service Improvement Act of 2002, which significantly revamped the mail system within the state. The two main goals of

RSIA were to increase the amount of flying with larger aircraft under Part 121 safety standards and to reduce the Postal Service's expenditures. While the industry is still adjusting to the new law, the early returns are that both of your main objectives are being met.

As background, the Postal Service is responsible for paying for the delivery of mail within Alaska, as well as ensuring that mail is equitably tendered to qualifying carriers, while the Department is charged with setting the rates that the Postal Service pays the airlines. Under the bypass system, goods bound for the communities, including critical food and medicine moving as mail, bypass the physical facilities of the Postal Service. Instead, the bypass shipper is directed to deliver the mail shipment directly to a particular airline, where a Postal Service official weighs, tracks, and records the shipment before its embarks.

RSIA recognized that two central problems with the mail system had developed since its inauguration. First, a class of carriers had developed that focused on mail to the exclusion of passengers or freight. RSIA compared air service in Alaska to a three-legged stool. It recognized that if there was focus by any party on only one leg of the stool, such as mail, the overall stool would be weakened. For illustration, if there is only enough traffic at a village to support four round trips a week, that village is clearly better off receiving passenger and mail combination service each of those four days, rather than mail-only service on two days and passenger-only service on those other two days. RSIA encouraged just such a result by establishing two separate pools for passenger and freight carriers for each village. Passenger carriers transporting more than 20 percent of total passengers in a village were to share 70 percent of the mail, and freight carriers transporting more than 25 percent of the freight in a

village were to receive 20 percent of the total mail to that village. The remaining ten percent of the mail was reserved, for a five-year transition period, for the carriers that did not qualify for either of those two pools. RSIA contemplated those mail-only carriers would either convert to passenger/freight service or go out of business. Before RSIA, three carriers relied more heavily on mail than any of the other bush carriers – Bellair, Village Aviation, and Servant Air. Mail constituted more than 95 percent of each of those carriers' total traffic, and each carrier has since ceased operations, though Servant is now operating under new ownership and management. The mail from those three carriers is now available to support combination passenger and freight service by the surviving carriers. (For a comparison of carrier traffic from calendar year 2000, before RSIA, to that traffic in 2004, see Appendix A.)

Second, RSIA recognized that the longstanding simple mail rate structure of separate bush and mainline classes of mail ignored the increasing development of modern turboprop equipment, and the potential benefits they presented to passengers from their greater speed and safety and to the Postal Service from their lower costs. To fully realize those advances, RSIA divided the single bush mail rate into three separate classes. Putting the goals of larger, safer aircraft in conjunction with reduced Postal Service expenditures produced a win-win result. With respect to saving the Postal Service money, service with larger bush aircraft is more cost efficient in moving larger volumes of mail in larger markets.

Previously, the Department had set a single bush mail rate for all carriers operating equipment with a payload of less than 7,500 pounds (about 30 seats). RSIA directed the Department to carve out three separate rates: for 19-seat or larger aircraft operating under the more stringent

FAA Part 121 standards; for smaller aircraft operating under Part 135; and a separate rate for seaplane aircraft, recognizing the higher cost of operating to villages accessible only by those aircraft. The Department has done as RSIA dictated: last year we issued 4 orders establishing these new rates. In rough terms, the new Part 121 rate developed by the Department is one-half of the former unitary rate, the Part 135 rate is the same as the former unitary rate, and the Seaplane rate is double that earlier single rate. Because larger Part 121 service is operationally limited to the biggest airports and economically to the largest villages with the most mail, and Seaplane operations to the smallest, the Postal Service is clearly saving significant funds from this restructuring of bush mail rates.

RSIA also tried to ensure that passengers at larger villages be served with larger 19-seat aircraft operating under more stringent FAA Part 121 operating standards. With the goals of saving the Postal Service money and encouraging Part 121 service, the Department established another class rate based on the costs of more expensive 19-seat Part 121 aircraft, such as ERA Aviation's Twin Otters, which have short takeoff and landing capabilities lacking in other 19-seat equipment. Only Twin Otters and smaller Part 135 aircraft are capable of landing at very short runway airports. Without the Department creating a mail rate intermediate between the high cost of Part 135 service, and the low cost of regular Part 121 service, those short runway communities served by ERA's Twin Otters would have lost that service in lieu of less commodious Part 135 aircraft, and the Postal Service would have had to pay more for it as well.

I should also mention that the Department has recently granted the Postal Service an exemption to pay more than the Part 121 rate, but still less than the Part 135 rate, on a market-by-market

basis, in order to ensure that carriers would continue to operate with Part 121 service to many communities rather than remove seats from aircraft to fall within the Part 135 rate. Although the exemption is currently on appeal, and accordingly I am limited in what I can say about it, I do believe that this decision is consistent with RSIA's aims and helps ensure that unintended consequences of a three-rate structure do not redound to the detriment of Alaskan consumers or the Post Office.

In closing, Mr. Chairman, let me reaffirm the Department's commitment to small community, and especially Alaska, air service. We look forward to working with you and the members of this committee as we continue to work toward these objectives. Thank you again. This concludes my prepared statement. I will now ask that Administrator Blakey discuss a few safety issues. At the end of her prepared remarks, I will be happy to answer any of your questions.

Mail as a Percentage of All Scheduled Traffic for Alaska Bush Carriers
Calendar Year 2000

						Mail Volume as a
						Percent of
						Carriers
	<u>Carrier & Designator</u>	<u>Psgs.</u>	<u>Freight (PEQ)</u>	<u>Mail (PEQ)</u>	<u>Total</u>	<u>Total Volume</u>
1	Bellair (BEL)	0	65.0	9,466.4	9,531.4	99.32%
2	Camai (Village, VLA)	52	305.9	14,532.6	14,890.5	97.60%
3	Servant (SVA)	0	139.1	5,110.2	5,249.3	97.35%
4	Yute (YUT)	6	713.3	17,099.8	17,819.1	95.96%
5	Olson (OAS)	9	61.9	1,640.3	1,711.2	95.86%
6	Taquan (TQA)	8	6.8	221.9	236.7	93.75%
7	Alaska Central Express (YTU) 1/	0	17,814.1	137,626.8	155,440.9	88.54%
8	Illiamna Air Taxi (IAT)	361	419.7	4,516.1	5,296.8	85.26%
9	Tanana (TAN)	4,293	510.9	14,928.7	19,732.6	75.66%
10	Jim Air (JMA)	347	73.3	1,179.6	1,599.9	73.73%
11	Larry's (LFS)	7,681	964.0	19,482.2	28,127.2	69.26%
12	Arctic Transportation (RYA)	0	19,221.0	30,896.8	50,117.8	61.65%
13	Arctic Circle (ASE)	1,242	10,681.4	18,443.9	30,367.3	60.74%
14	Baker (BKR)	4,180	57.0	6,480.4	10,717.4	60.47%
15	Smokey Bay (SKB)	394	32.1	564.7	990.8	56.99%
16	Ellis (ELL)	361	28.7	247.1	636.8	38.80%
17	Inland (INL)	566	3.4	352.9	922.3	38.26%
18	Frontier (FFS)	41,628	4,929.9	21,003.4	67,561.3	31.09%
19	Cape Smythe (CSY)	41,839	5,672.3	19,221.1	66,732.4	28.80%
20	Grant (GRT)	61,084	316.3	23,374.0	84,774.3	27.57%
21	Hageland (HAG)	82,006	6,698.4	32,813.7	121,518.1	27.00%
22	Alaska Seaplane (AKS)	0	1,242.0	4,180.0	5,422.0	77.09%
23	40-Mile Air (WRB)	2,536	942.1	998.8	4,476.9	22.31%
24	Spernak (SNK)	67	30.0	27.1	124.1	21.84%
25	Wright (WAS)	14,865	2,384.0	4,674.3	21,923.3	21.32%
26	Bering (BER)	51,504	9,126.8	15,929.3	76,560.1	20.81%
27	Wings of Alaska (WOA)	31,585	3,591.7	8,220.8	43,397.5	18.94%
28	Penninsula (PNA)	175,129	6,888.9	39,040.8	221,058.7	17.66%
29	Ward (WRD)	66	3.6	13.8	83.4	16.55%
30	ProMech (PRH)	38,492	5,378.0	7,527.7	51,397.7	14.65%
31	Warbelow (WAL)	33,574	5,526.8	6,125.3	45,226.1	13.54%
32	Island Air Service (IAS)	19,621	1,974.5	3,059.1	24,654.6	12.41%
33	LAB	25,655	4,948.0	2,221.3	32,824.3	6.77%
34	Skagway (SKG)	9,980	1,030.0	453.4	11,463.4	3.96%
35	Haines (HNS)	8,251	565.5	352.5	9,169.0	3.84%
36	ERA 1/	435,057	8,779.7	15,304.2	459,140.9	3.33%
37	FS Air Service (FSA)	984	70.6	0.0	1,054.6	0.00%
38	Gulf Air Taxi (GAT)	399	107.8	0.0	506.8	0.00%
39	Katmai (KAT)	7,549	238.9	0.0	7,787.9	0.00%
40	<u>Northern Air Cargo (NET)</u>	<u>0</u>	<u>71.9</u>	<u>0.0</u>	<u>71.9</u>	<u>0.00%</u>
		1,101,371	121,615.3	487,331.0	1,710,317.3	28.49%

1/ Carrier in litigation. An all-cargo operator, its business model was to use B-1900 equipment to transport mainline mail.

2/ Carrier provided a great deal of service with mainline equipment.

Note: 200 pounds of mail or freight is one PEQ (passenger equivalent)

Mail as a Percentage of All Scheduled Traffic for Alaska Bush Carriers
Calendar Year 2004

<u>Carriername</u>	<u>T110</u> <u>Rpax</u>	<u>Frt.</u> <u>PEQs</u>	<u>Mail</u> <u>PEQs</u>	<u>Total</u> <u>PEQs</u>	<u>Mail Percent</u>
Olson Air Service	0	28	390	417	93.39%
Baker Aviation, Inc.	419	48	1,999	2,466	81.06%
Taquan Air Service	2,022	210	4,926	7,158	68.82%
Tanana Air Service	2,105	507	4,418	7,030	62.84%
Alaska Central Express	0	23,293	39,295	62,589	62.78%
Inland Aviation Services	2,468	577	4,673	7,718	60.54%
Arctic Circle Air Service	1,851	13,187	19,838	34,876	56.88%
Larrys Flying Service 1/	2,183	367	3,200	5,751	55.65%
Bellair, Inc. 1/	0	596	727	1,323	54.96%
Arctic Transportation	0	30,228	28,285	58,514	48.34%
Village Aviation 1/	0	5,592	4,169	9,761	42.71%
Ellis Air Taxi, Inc.	271	17	202	490	41.30%
Cape Smythe Air Service	28,685	4,093	21,298	54,076	39.38%
40-Mile Air	343	194	257	794	32.40%
Servant Air, Inc.	1,630	53	777	2,460	31.58%
Grant Aviation	65,997	582	29,524	96,103	30.72%
Bering Air, Inc.	59,804	11,216	30,465	101,485	30.02%
Hageland Aviation Service	135,745	9,206	57,619	202,570	28.44%
Iliamna Air Taxi	7,902	517	3,284	11,703	28.06%
Spornak Airways, Inc.	124	235	104	463	22.53%
L.A.B. Flying Service, Inc.	14,053	1,087	3,818	18,958	20.14%
Yute Air Aka Flight Alaska	11,323	120	2,865	14,309	20.03%
Wright Air Service	18,140	3,357	5,316	26,813	19.83%
Warbelow	35,565	3,884	9,719	49,168	19.77%
Alaska Seaplane Service	2,507	609	713	3,829	18.63%
Frontier Flying Service	136,876	9,647	31,414	177,937	17.65%
Peninsula Airways, Inc.	202,240	15,571	33,052	250,863	13.18%
Island Air Service	14,544	2,962	2,265	19,771	11.46%
Wings Of Alaska	33,526	4,565	4,462	42,553	10.49%
Promech	25,336	1,915	2,688	29,939	8.98%
Skagway Air Service	11,692	984	1,097	13,773	7.97%
Smokey Bay Air, Inc.	17,355	2,205	1,551	21,111	7.35%
Era Aviation 2/	362,140	7,169	20,806	390,115	5.33%
<u>Katmai Air</u>	<u>10,232</u>	<u>724</u>	<u>0</u>	<u>10,956</u>	<u>0.00%</u>
	1,207,078	155,543	375,219	1,737,840	21.59%

1/ No longer operating.

2/ About one-fourth of its operation is bush, the rest is mainline.

3/ Carrier's business model is to operate bush or small mainline equipment in mainline markets.